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FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 6940

C O N F I D E N T I A L SECTION 1 OF 2 VIENNA 08938

E.O. 11652: GDS

TAGS: PINT PFOR AU

SUBJECT: AUSTRIAN DOMESTIC SCENE: PROBABLE DEVELOPMENTS AND
TRENDS FOR LATE 1975-EARLY 1976

REF: VIENNA 8870

1. BEGIN SUMMARY:: FORECAST OF CONTINUED DOWNTURN OF
ECONOMY INTO SUMMER OF 1976 WILL CREATE PROBLEMS FOR NEW
KREISKY GOVERNMENT BUT IS UNLIKELY TO SHAKE EXISTING HIGH
DEGREE OF POLITICAL STABILITY ON AUSTRIAN DOMESTIC SCENE.
COMPOSITION OF NEXT KREISKY GOVERNMENT WILL REMAIN
UNCHANGED, THEREBY ALLOWING SOCIALISTS TO GIVE COMPLETE
ATTENTION TO DEALING WITH DISAPPOINGTING ECONOMIC SITUATION.
KREISKY ELECTION PROMISES, TIGHT BUDGETARY SITUATION AND
DECLINING ECONOMIC ACTIVITY SET PARAMETERS IN WHICH
GOVERNMENT POLICIES WILL BE DEVELOPED. MAJOR ATTENTION
WILL LIKELY FOCUS ON PROMOTING ECONOMIC RECOVERY,
PARTICULARLY MAINTAINING EMPLOYMENT, AND CONSOLIDATING
EXISTING SOCIAL WELFARE PROGRAMS. NO MAJOR POLICY
CHANGES ARE EXPECTED IN FOREIGN AND DEFENSE FIELDS.
PARLIAMENT WILL BECOME MAJOR ARENA OF POLITICAL JOUSTING
BEGINNING NOVEMBER 4 AS KREISKY GOVERNMENT PRESENTS
PROGRAM STATEMENT AND BUDGET. OTHER IMPORTANT INSTITU-
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TIONS SUCH AS TRADE UNION FEDERATION AND SOCIAL PARTNER-
SHIP ARE EXPECTED TO PLAY SUPPORTIVE ROLES IN PROMOTING

ECONOMIC RECOVERY. IF CURRENT ESTIMATES OF A RATHER MILD RECESSION FOLLOWED BY A MODEST RECOVERY IN THE SECOND HALF OF NEXT YEAR PROVE VALID, AUSTRIA WILL BE ABLE TO MAINTAIN A RELATIVELY HIGH LEVEL OF ECONOMIC ACTIVITY IN NEXT 12 MONTHS. SUCH A SCENARIO WOULD ASSURE CONTINUATION OF EXISTING POLITICAL STABILITY AND ABSENCE OF SOCIAL TENSIONS. END SUMMARY.

2. SETTING: PROBABLE CONTINUED DOWNTURN IN ECONOMIC ACTIVITY IN AUSTRIA INTO NEXT YEAR WILL HAVE MAJOR IMPACT ON ALL ASPECTS OF DOMESTIC SCENE. LATEST FORECAST OF AUSTRIAN INSTITUTE FOR ECONOMIC RESEARCH (WIFO) PROJECTS DECLINE OF 2.1 PERCENT IN REAL GNP FOR 1975 FOLLOWED BY POSITIVE GROWTH OF 1.5 PERCENT IN 1976 BASED ON MODEST RECOVERY IN SECOND HALF OF YEAR. ANNOUNCEMENT OF FIRST ACTUAL DECLINE IN ECONOMIC ACTIVITY SINCE WORLD WAR II HAS ALREADY RESULTED IN DIRE PREDICTIONS OF ECONOMIC CHAOS FROM OPPOSITION PARTIES, AND IN GOVERNING SOCIALISTS TAKING CAUTIOUS STANCE ON ECONOMIC OUTLOOK. OTHER KEY PROJECTIONS FOR 1976 INCLUDED AN UNEMPLOYMENT RATE OF ABOUT 3 PERCENT, AND INFLATION RATE OF 6.5 PERCENT (8.5 IN 1975) AND MODEST INCREASE IN EXPORTS BY 3 PERCENT AFTER 8 PERCENT DECLINE IN 1975. AFTER YEARS OF EXPANDING REAL INCOME, AUSTRIANS NOW FACE PROSPECT OF NEED TO EXERCISE SOME GOVERNMENTAL AND PERSONAL FRUGALITY.

3. AUSTRIAN DOMESTIC POLITICAL SCENE IS MARKED BY GREAT POLITICAL STABILITY, AS RECONFIRMED BY ELECTION OUTCOME. RADICALISM EITHER OF EXTREME LEFT OR RIGHT HAS NO POLITICAL APPEAL IN AUSTRIA AT THIS JUNCTURE. COMMUNIST PARTY SUPPORT IN ELECTIONS DECLINED TO SLIGHTLY OVER ONE PERCENT OF VOTE, RELEGATING IT TO BEING NEGLIGIBLE POLITICAL FORCE ON AUSTRIAN SCENE. ANOTHER INDICATOR OF DOMESTIC STABILITY AND ITS LIKELY CONTINUATION WAS VOTE OF YOUNG PEOPLE AND THOSE VOTING FOR FIRST TIME; THEIR VOTING PATTERN FOLLOWED THAT OF POPULATION IN GENERAL.

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4. GOVERNMENT COMPOSITION: NEXT KREISKY GOVERNMENT, WHICH WILL TAKE OFFICE ON OCTOBER 28, WILL BE IDENTICAL WITH THAT OF OUTGOING ONE, AT LEAST FOR FIRST 12 TO 18 MONTHS. THIS ARRANGEMENT ALLOWS KREISKY GOVERNMENT TO DEVOTE FULL ENERGIES TO DEALING WITH ECONOMIC SITUATION. AT SAME TIME IT ALLOWS CHANCELLOR GOOD DEGREE OF FLEXIBILITY AND CHOICE OF TIMING IN EVENTUALLY REPLACING MINISTERS HAUSER (SOCIAL AFFAIRS), FIRNBERG (SCIENCE), WEIHS (AGRICULTURE), WHO WILL RETIRE; LEODOLTER (HEALTH), WHO WILL DEPART BECAUSE OF LESS-THAN-SATISFACTORY

PERFORMANCE, AND BIELKA (FOREIGN AFFAIRS) AND LUTGENDORF (DEFENSE), TWO POLITICAL NON-ENTITIES WHO ARE EXPENDABLE AND WHOSE POSTS COULD BE GIVEN TO NON-PARTY AFFILIATED IN AN EFFORT BY KREISKY TO EXPAND POLITICAL BASE OF GOVERNMENT.

5. DOMESTIC POLICIES: KREISKY, IN VICTORY STATEMENT ON ELECTION EVENING, SET PARAMETERS FOR POLICIES OF NEXT LEGISLATIVE PERIOD BY NOTING THAT SOCIALISTS HAD BEEN REELECTED ON MODERATELY PROGRESSIVE PROGRAM AND THAT MARGIN OF VICTORY WAS PROVIDED BY "LIBERAL ELEMENTS" WHO FAVOR CONTINUATION OF EXISTING POLICIES. HIS SUBSEQUENT STATEMENTS SUGGEST SOCIALIST GOVERNMENT WILL ESCHEW ANY RADICAL SOCIAL ENGINEERING PROGRAMS, AT LEAST FOR NEXT TWO YEARS. OTHER FACTOR OF IMPORTANCE IN LATTER REGARD IS TIGHT BUDGETARY SITUATION WHICH LIKELY TO BE CITED BY KREISKY AS REASON FOR INABILITY TO GENERATE NEW EXPENSIVE SOCIAL WELFARE PROGRAMS, EVEN IF CONSIDERED DESIRABLE BY PARTY. PROBABILITY THEREFORE IS THAT GOVERNMENTAL ECONOMIC AND SOCIAL POLICIES WILL FOCUS LARGELY ON EFFORTS TO COUNTER ECONOMIC DOWNTURN, ON CONSOLIDATION OF EXISTING SOCIAL LEGISLATION AND WELFARE SERVICES, ON CONTINUATION OF LEGAL AND ADMINISTRATIVE REFORMS AND ON ESTABLISHMENT OF OMBUDSMAN ON LEGAL BASIS, MOSTLY UNDERTAKINGS REQUIRING NO MAJOR BUDGETARY OUTLAYS. A MORE DETAILED PRESENTATION OF GOVERNMENT POLICIES WILL BE CONTAINED IN GOVERNMENT'S STATEMENT TO PARLIAMENT WHICH SCHEDULED FOR PRESENTATION NOVEMBER 12.

6. FOREIGN AND DEFENSE POLICIES: NO MAJOR POLICY CHANGES ARE ANTICIPATED IN FOREIGN AND DEFENSE AREAS.
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C O N F I D E N T I A L SECTION 2 OF 2 VIENNA 08938

EXPENDITURES FOR DEFENSE ARE LIKELY TO CONTINUE TO BE NEGLECTED IN FAVOR OF KREISKY'S PENCHANT FOR CONSIDERING VIENNA UN CITY BEING BULT ON DANUBE AS MORE IMPORTANT GUARANTOR OF AUSTRIA'S NEUTRALITY. KREISKY IS LIKELY TO BE EVEN MORE ACTIVE IN FOREIGN AFFAIRS FIELD IN NEXT FOUR YEARS, GIVEN HIS OBVIOUS DESIRE TO PLAY ROLE OF STATESMAN ON WORLD SCENE.

7. CHANCELLOR'S POST -ELECTION PROPOSAL TO ESTABLISH THREE-PARTY COUNCIL ON FOREIGN POLICY HAS RING OF SPUR-OF-MOMENT IDEA TO UNDERLINE HIS WILLINGNESS TO COOPERATE WITH OPPOSITION IN FIELD THAT IS ALREADY LARGELY DEVOID OF CONTROVERSY. DETAILS OF PROPOSAL REPORTEDLY ARE NOW BEING PREPARED IN CHANCELLOR'S OFFICE.

8. PARLIAMENTARY SCENE: SINCE ELECTION CAMPAIGN FOUGHT LARGELY ON ECONOMIC ISSUES, PARTICULARLY JOB SECURITY, INITIAL MEETINGS OF NEW PARLIAMENT WIL BE CONCERNED WITH CONSIDERATION OF BUDGET AND ECONOMIC LEGISLATION, BOTH DESIGNED TO SUPPORT RECOVERY OF ECONOMY. KREISKY GOVERNMENT WILL HAVE UNPLEASANT TASK OF DEFENDING INCREASES IN THE VALUE-ADDED TAX, UTILITY AND POSTAL RATES, TRANSPORT FARES, ETC., WHICH BECOME EFFECTIVE IN NEW YEAR, AS PART OF SOCIALIST EFFORT TO DEAL WITH
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BUDGETARY DEFICITS AND RISING COSTS. AS IN PAST, SOCIALIST GOVERNMENT WILL DEPEND LARGELY ON ITS CABINET MINISTERS TO EXPLAIN AND DEFEND ECONOMIC POLICY.

9. OPPOSITION PARTIES, WHO BELABORED GOVERNING SOCIALISTS FOR MISMANAGEMENT OF ECONOMY AND GOVERNMENT IN ELECTION CAMPAIGN, WILL BE SEEKING OPPORTUNITIES TO PROVE THEIR CONTENTIONS. PEOPLE'S PARTY PHALANX OF ECONOMIC SPOKESMEN IN PARLIAMENT WILL BE AUGMENTED BY PARTY CHAIRMAN TAUS AND PARTY SECRETARY GENERAL BUSEK, BOTH OF WHOM ARE EXPECTED TO ENLIVEN PARLIAMENTARY DEBATE.

10. CHANGE OF SOME IMPORTANCE IN SOCIALIST PARLIAMENTARY GROUP WILL BE APPOINTMENT OF HEINZ FISHER, PRESENT PARLIAMENTARY SECRETARY (AND RECENT IVP GRANTEE), AS SOCIALIST FLOOR LEADER. HE IS CONSIDERED LIKELY CANDIDATE FOR MINISTRY OF SCIENCE WHEN INCUMBENT FIRNBERG RETIRES.

11. ROLE OF OTHER INSTITUTIONS: TRADE UNIONS ARE EXPECTED TO SHOW RESTRAINT IN THEIR DEMANDS AND EFFORTS TO ACHIEVE THEM, GIVEN INTERLOCKING DIRECTORATES OF SOCIALIST PARTY AND TRADE UNION FEDERATION LEADERSHIPS. WITH A DECLINE IN REAL GNP PROBABLE, TRADE UNION FOCUS WILL SHIFT TO JOB SECURITY AND CONSOLIDATION OF BENEFITS.

12. SOCIAL PARTNERSHIP, AUSTRIA'S UNIQUE MECHANISM FOR KEEPING MANAGEMENT AND LABOR IN COOPERATIVE STANCE, WILL HAVE KEY ROLE IN EVOLVING PERIOD OF CONTINUED SLOW DOWNWARD SLIDE IN ECONOMIC ACTIVITY. WITH BENYA CONTINUING AS TRADE UNION FEDERATION PRESIDENT AND SALLINGER AS HEAD OF ECONOMIC LEAGUE, REASONABLE COOPERATIVE ATMOSPHERE IS EXPECTED TO PREVAIL IN WAGE-PRICE DETERMINATIONS.

13. IF CURRENT ECONOMIC FORECASTS PROVE VALID, AUSTRIA SHOULD BE ABLE TO WEATHER THE ECONOMIC DOWNTURN WITHOUT A MAJOR INCREASE IN SOCIAL TENSIONS OR AN EROSION OF EXISTING POLITICAL STABILITY.
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